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CENTRAL INTELLIGENCE AGENCY

REPORT NO. [REDACTED]

INFORMATION REPORT

CD NO.

COUNTRY Hong Kong/China/Korea

DATE DISTR. 27 June 1949

SUBJECT Chinese Communist Plans for
Barter Trade between Hong Kong
and the Liberated Areas

NO. OF PAGES 7

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ACQUIRED [REDACTED] 25X1A

DATE OF INFO. See below

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(LISTED BELOW)SUPPLEMENT TO
REPORT NO.

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The following report is a translation of notes made by an unknown person on the subject of barter trade between Hong Kong and ports in Manchuria and Korea. Internal evidence indicates that it was prepared in the latter part of 1948, and at least in part after 18 December 1948. The form of the original text, as it was received in translation, has been retained, and no attempt has been made to edit ambiguous passages.

Details Highlighting the Bartering System between Hong Kong and the Liberated Areas.

A. Explanation:

1. The liberated areas here are three ports, including one in North Korea, Dairen and Antung.
2. All commodities handled under this system must be absolutely free from any contraband goods.
3. The bartering system should not be carried out in such a way as to encourage smuggling.
4. Assurance is given that all transactions will yield a reasonable and profitable return of two-fold the original capital invested.
5. The Government of North Korea and the Chinese Communist (CCP) Trade Bureau are the two authorized business agencies representing competent sources to transact business coming from the Colony.
6. Aspect of political connections as well as matters relating to items (B) and (C) must be specified by explanation.

B. Outline of Advantages:

1. If the object of this trade is only high profits, then, comparatively, the business returns from South Korea are less promising than those from North Korea; Dairen's prospects are better than North Korea's; the importance of Antung outshines the promise of Dairen. These are

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Date: 22 May 78 By: 018

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a few of the facts gathered from vessels which have made eleven chartered voyages to these ports, as recorded in Hong Kong by the authorities concerned up to the 18th of this month and during the current year.

2. If, apart from the prospect of realizing excessive profits, one has still other aims in view with regard to this trade, it will be most necessary to look for accessible and suitable opportunities to negotiate with the CCP authoritative business agencies for the monopolization of the barter with Antung, and to secure the leading right to carry on trade between that port and Hong Kong, as well as the leading right for Great Britain and the United States to transact business direct with the port. (Dairen is suspected of Russian involvement; so also North Korea of its indirect connections.)
3. The capital and time required for a voyage to Antung is the same as for a trip to North Korea, but the profit realized at Antung is twice that obtained from North Korea.
4. The Yalu River is frozen and will not be open to navigation until the ice is melted in the coming spring, and with the Gulf of Chihli closed to shipping, all commodities in northeast China will have no outlets other than to provide the port of Antung for outward consumption. Therefore there is no doubt that Antung will be a very flourishing commercial port and will offer many fine trade opportunities to net higher incomes in the near future.
5. There will be a free flow of trade between Hong Kong and Japan in the coming spring, and as a result of the fact that the wary vigilance of America toward Russian activities in Dairen is apt to be intensified in the future, the trade outlook in North and South Korea will not present a promising picture and will actually decline in commercial importance. This is not the case with Antung. The above factors will have no effects whatsoever on the port, and in all respects the decline in importance of the above ports will further enhance its business boom. Even if the CCP suffered defeatism and retreated beyond the Great Wall of China, Antung's commercial activities would in no way decrease and it might even double in importance. This port cannot be deemed the life line supply of the CCP, but rather a harbor for the busy entry and exit of vessels for trade and commerce.

C. Outline of Procedures:

1. All manners of procedure and kinds of commodities involved in the barter will be agreed upon by both parties concerned before any steps can be taken to ship the cargoes out of the Colony.
2. All commodities to be shipped for barter must be legally passed through customs, and authorizations must be granted for them before they leave Hong Kong. Likewise, all goods carried in return for the Colony must be cleared by the Chinese Customs authorities either at Chau Nam Po¹ or Sun Yee Chan² in North Korea, and the proper duties paid according to the standing tariff before sailing, with no smuggling or evading of duties, and the ship must conform to lawful rules of navigation.

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3. All vessels, upon arrival at Chau Nam Po, Tai Tung³ or Yuen Shau⁴, will immediately be directed by the CCP Trade Bureau to Antung for the loading or unloading of all cargoes.
4. Aside from barter (with reference to items listed under section (G)) there is also a transportation contract system, whereby goods are processed and transported to a desired destination for consignors, as itemized in section (H).
5. If any formal negotiation is desired, representatives of the CCP business agencies will be in a competent position to carry this out to facilitate the transaction of business. Formal barter is responsible for ¹⁰ by agencies of the Hong Kong banks.

D. Items of Export:

1. Raw rubber - type number 4 and number 5.
2. Zinc oxide.
3. Used rubber tires.
4. Cotton yarn.
5. New jeeps and 1½-ton, 3-ton or 5-ton trucks.
6. Medicine.
7. Gum rubber (Elephant Brand).
8. Gunny sacks (or jute bags).
9. 50-gallon empty gasoline drums.
10. Automobile oil.

E. Items of Import:

- | | |
|-------------------------------------|----------------------|
| 1. Yellow beans. | 8. Ginseng. |
| 2. Bristles (dressed or undressed). | 9. Lumber |
| 3. Bean oil. | 10. Copper and iron. |
| 4. Oil in kinds. | 11. Vermicelli. |
| 5. Bean cakes. | 12. Medicinal herbs. |
| 6. Peanut oil. | 13. Furs. |
| 7. Deer horns. | 14. Antelope horns. |

F. Ratio under the Barter System:

1. 1 ton of raw rubber (type number 4) equals 6 tons of soya beans.
2. 1 ton of raw rubber (type number 5) equals 5 tons of soya beans.
3. 50 tons of gum rubber equal 55 cases or 1 set of bristles.
4. The exchange of other commodities can be made according to the ratio or current prices prevailing in the Colony.

G. Methods Regulating Shipment of Own Cargo in Chartered Bottoms:**a. Payments:**

The following payments of capital will be necessitated for the lease of a vessel of 3,000 to 3,500 tonnage to ship personally owned cargoes to the liberated areas under the barter system:

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1. Payment of one month's rent for the chartered vessel -----	\$180,000.00 ⁵ (due to current unpromising outlook for shipping, some vessels can even be chartered at a monthly rate of \$120,000.00.)
2. 100) (type number 4) 100) tons raw rubber (type number 5) -----	\$180,000.00
3. 50 tons gum rubber -----	\$90,000.00
4. 4 new jeeps -----	\$28,000.00
5. 4 trucks -----	\$36,000.00
6. 100 bales cotton yarn -----	\$135,000.00
7. 20 tons medicine -----	\$80,000.00
8. 100,000 pieces gunny sacks (or jute bags) -----	\$180,000.00
9. 1,000 empty gasoline drums -----	\$10,000.00
Approximate total	<hr/> \$900,000.00

b. Receipts:

If the above amount is invested, a return of the following approximate value will be realized:

1. 3 sets of bristles -----	\$600,000.00
2. 200 tons peanut oil (at \$2,200 per ton) -----	\$400,000.00
3. 10,000 tons yellow beans (at \$480.00 per ton) --	\$480,000.00
4. 200 pairs deer horns (at \$800.00 per pair) -----	\$160,000.00
5. 500 tons bean cakes (at \$250.00 per ton) -----	\$125,000.00
6. 20,000 piculs vermicelli (at \$100.00 per picul) -	\$200,000.00

Approximate total	<hr/> \$2,000,000.00
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H. Methods Governing Transportation Contracts:

a. Payments:

1. The cost of leasing a vessel of about 2,000 tons for one month -----	\$40,000.00
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2. Estimated cost for fuel consumption, food and expenses for members of the crew -----	\$50,000.00
3. Salaries for crew -----	\$4,000.00
<hr/>	
Total	\$94,000.00

4. (It is estimated that a capital of only \$40,000 will be necessary to turn in to start this business by paying for the lease of the vessel in advance, as all freight for order goods is prepaid in full. This renders it feasible for the ship to make the outward and return trips.)

b. Receipts:

1. A freighter of 2,000 tonnage can load a maximum net weight of 1,000 tons. The freight charge per ton of cargo is \$100.00, and when a vessel is leased at least a minimum weight of 600 to 800 tons of merchandise can be obtained in Hong Kong within a period of five days, for shipment to the liberated areas for barter. (On the return voyage, if the barter happened to be bristles only, the loading capacity would be limited due to the bulkiness of the cargo, but if the cargo were yellow beans, the ship could carry a maximum load of 1,000 tons.) Calculating only on a minimum tonnage of 600 tons which the vessel would load for the liberated areas, at \$100.00 per ton the freight amounts to \$60,000.00.
 2. On the return voyage to Hong Kong with a maximum load of barter goods, the freight payment will be ----- \$100,000.00.
 3. A handling charge of 20 percent on the net profit from the cargo ----- \$40,000.00.
- | | |
|-------|--------------|
| Total | \$200,000.00 |
|-------|--------------|

4. (Comparing the receipts and payments of each voyage, a profit of more than \$100,000 will be realized. If several similar journeys are made by each concern undertaking such transportation, it will in no time earn enough to finance an enterprise of its own, as referred to in Section (G).)

I. Experiences in Antung Barter:

Since October of the current year, four ships have been recommended to barter with Antung. So far, only one has returned to the Colony and, though this was her maiden voyage, the profit realized from the cargo she brought back was 100 percent. The following are the four vessels which sailed to Antung for bartering transactions:

1. SS CEUSBOR⁶, a 580-ton freighter, was chartered by a prominent provisions and seafoods store, Yee Tai Hong, Wing Lok Street, West.⁷ While the ship was on her way back to Hong Kong she met a storm and, being obliged to change course, ran short of fuel. In order to continue the voyage, the yellow beans which she carried as a part of her cargo were used for fuel. Because of this use of the beans as

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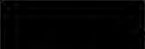

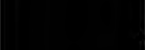
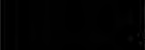

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fuel, she suffered a heavy loss according to the usual calculations for her entire cargo. Nevertheless, a net profit of 100 percent was realized from the voyage when the remainder of her cargo was disposed of.

2. The 120-ton converted American landing craft, BLUE BIRD, chartered on the spur of the moment by Li Yuen Cheung and the merchants of Northeast China, left her anchorage on 7 November, sailing from Hong Kong for Antung. While on her return voyage, she ran into a typhoon, and as a result her date of arrival was delayed.
3. SS PROSPERO⁸, a 3,200-ton vessel chartered by representatives of the Ta Hsing Trading Company, Ltd., a business establishment in northeast China, left Hong Kong harbor on 18 December, bound for Antung for a barter deal. Her arrival is expected soon.

J. Conclusion:

1. Methods incorporated in section (G) may be used as a basis for an initial trial by interesting⁹ business concerns under the bartering system.
2. Owners of goods are allowed full freedom of supervision aboard vessels.
3. The CCP is in urgent need of commodities from the Colony, as may be seen from a telegraphic request received yesterday. Details of their requirements are as yet to glance through.
4. There are at present also vessels of other neutral foreign flags available for lease to carry on the barter business.
5. If there are any misgivings about carrying on a direct barter with the liberated areas, transactions of this nature can also be made in North Korea by contacting the CCP business agencies there. However, the profits will be much smaller about 100 percent than what could be realized in direct barter with the liberated areas.
6. Those business concerns of long and prominent standing in Hong Kong can assume a leading role in such transactions in order to encourage operations.
7. Monopoly of this trade can be taken over by a cooperative.

1.  Comment. This is probably Chinnamp'o.
2.  Comment. This is possibly Sinuiju.
3.  Comment. This is probably Tatungkou (124-10, 39-52).
4.  Comment. This is possibly Wonsan, Korea.
5.  Comment. Presumably Hong Kong currency is meant.

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- 25X1A 6. [REDACTED] Comment. No ship of this name could be identified.
- 25X1A 7. [REDACTED] Comment. Yee Tai Hong was agent for the SS EASTERN TRADER, British flag, which arrived in Hong Kong from Chefoo in April 1949.
- 25X1A 8. [REDACTED] Comment. SS PROSPERO, Buenvenido Steamship Company, Ltd., Panama (Panamanian flag), was reported in April 1949 as having made one voyage, cargo unknown, between Hong Kong and ports in North Korea.
- 25X1A 9. [REDACTED] Comment. The correct translation is probably "interested business concerns."
- 25X1A 10. [REDACTED] Comment. The unexplained blank space in the translation at this point may have been inadvertent.

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